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VOL. CLIII NO. 170 Wednesday, August 31, 1988

Today

Rural bankers say the drought of 1988 will damage the financial condition of farm borrowers in the third quarter, but a Fed economist in Minneapolis believes the bankers are overly pessimistic. 2

Wells Fargo & Co. will lead the bank portion of the $963 million takeover financing of Insilco Corp., a diversified manufacturer, by two Texas oilmen. 2

First National Bank of Wilmington set up a two-tier rate to bypass the legal restrictions on exporting noninterest fees to out-of-state card users. 2

A coalition of about 30 money center and regional banks has been formed to counterbalance the ABA's opposition to the new-powers bill. 3

Banking at the workplace through on-site ATMs and mobile banks is a concept endorsed by about one-third of the nation's corporations, according to executives in the Corporate America Speaks survey. 14

United States Trust Company of New York is the first bank to go into full production with a trust system it developed at a cost of $60 million, starting five years ago. 20

Hawkeye Bancorp. said it has agreed to pay $2.08 million to settle a fraud suit against the company and its current president, Paul D. Dunlap, that arose from the 1979 sale of a southeastern Iowa bank. 23

A former Secret Service agent who also served as Philadelphia's police commissioner, Kevin M. Tucker has joined the executive ranks of Provident National Bank in that city. 24

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TECHNOLOGY

When Regulation CC takes effect Sept. 1, most banks will look to the Fed to process their return items. But banks can find less expensive ways to handle dishonored checks, according to a bank operations consultant. 10

First Tennessee National Corp. is one of the first institutions to announce a widely available alternative to the return-item services that the Fed banks will be offering under Reg CC. 10

Producers of training materials and other vendors are introducing a wide variety of products and services to help banks cope with Reg CC. 13

Worth Repeating

The Fed did not understand that they were dealing with a government entity, not a company.

A lawyer close to the Irving takeover bid commenting on the Fed's classification of BCI's parent as a holding company. [Page 1]

Did Fed Misread How Milan Bank Would React?

By BART FRAUST

NEW YORK — In deciding to treat Banca Commerciale Italiana's parent as a bank holding company under U.S. law, the Federal Reserve Board was not trying to kill the friendly bidder's deal to buy Irving Bank Corp., according to sources familiar with the Fed's deliberations on Irving.

NEWS ANALYSIS

Rather, the Fed was attempting to chart a middle course in the takeover battle.

But the Fed may have underestimated the importance of the sovereignty issue to Irving's Italian bidder.

"The Fed did not understand that they were dealing with a government entity, not a company," said one lawyer close to the takeover.

Banca Commerciale Italiana this week dropped its friendly bid to acquire 51% of Irving. The Milan bank said the Fed killed the deal by imposing requirements on Istituto per la Ricostruzione Industriale, or IRI, the Italian-government-owned conglomerate that controls Banca Commerciale.

In an interview Tuesday, Fed general counsel Michael Bradfield said he thought the Fed had dealt with the sovereignty issue. "We weren't limiting their overseas activities or even their activities in the U.S.," he said.

Mr. Bradfield said the Fed had offered to meet with representatives of the conglomerate last Thursday, but the Fed received no response from the Italians.

According to one source close to the Italian bank, Banca Commerciale representatives in the U.S. had offered to

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Industry Struggles to Meet Deadline for Check Rules

By YVETTE D. KANTROW

NEW YORK — Thursday is "CC Day" for banks and other financial institutions across the country. The Federal Reserve Board's Regulation CC takes effect, limiting the time that banks can hold checks before making the funds available to depositors.

Reg CC — the legal instrument for enforcing the Expedited Funds Availability Act of 1987 — is the most difficult and confusing piece of regulation to hit banking in years, most people in the industry agree.

But how well and to what extent financial institutions will be able to comply with the enormously detailed, 700-page regulation is a matter of contention. This seems only appropriate for a body of rules that has been hotly debated in recent months.

TECHNOLOGY TODAY

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Bankers have been complaining about its costs and warning that consumers — the purported beneficiaries of the law — will end up paying for it in higher fees.

"I think the word is out now," Stephen Ledford, director of technical research for the Bank Administration Institute in Rolling Meadows, Ill., said of the massive effort by the Fed and trade associations to educate bankers in the fine points of Reg CC.

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AN AMERICAN BANKER SURVEY

52% of Firms Use Direct Deposit

By JEFFREY KUTLER
Fifth in a Series

A majority of the nation's largest companies offer to deposit employees' pay automatically into individual workers' bank accounts. And almost half of the employees who have the direct deposit service available take advantage of it.

Corporate America Speaks

These findings, from the *American Banker*'s first Corporate America Survey, suggest that direct deposit has overcome obstacles against which other electronic funds transfer services continue to struggle.

The payroll deposit service has entered the mainstream of bank-corporate relationships, though it is not as central to those relationships as more traditional aspects of commercial banking. In many companies, direct deposit has been accepted by the majority of workers. Such companies may go to great lengths to convince those who resist direct deposit to join the fold.

The survey was conducted in March and April by Trans Data Corp., Salisbury, Md., a research affiliate of this newspaper. It is based on interviews of executives at 413 randomly selected companies nationwide, none in the financial services industry. These executives are responsible for choosing the fi-

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FROM THE REGIONS

THE MIDWEST

Rural Bankers Expect Lag in Farm Income

By RICHARD RINGER
Midwest Bureau

CHICAGO — Rural bankers expect the financial condition of their farm borrowers to decline in the third quarter, but an economist at the Federal Reserve Bank of Minneapolis believes the bankers are overly pessimistic.

The bankers' gloomy forecast is based on the effects of this summer's drought, the worst in decades. Responding to a regularly conducted survey, the bankers said the strong financial gains made by farm borrowers in the second quarter will not continue in the current quarter.

The midyear survey of rural bankers in the Minneapolis Fed's district, which includes all or part of six upper midwestern states, shows that about half the bankers expect net farm income and farm spending to lag behind year-ago levels in the third quarter.

Bankers expect the drought to restrain farm profits because of a sharp decline in crop yields, higher expenses, and lower government deficiency payments. In the past, government deficiency payments provided farmers with additional funds for crops when their market price was below a set target.

A report on the survey states: "The expected decline in farm income, surveyed bankers say, will likely weaken farmers' financial conditions generally in the third quarter. In this survey, much larger percentages of bankers than last quarter expect farm spending to decline, the pace of farm debt repayment to slow, and the demand for farm debt refinancing to increase in the next three months."

The Minneapolis Fed conducted the survey, to which 183 rural bankers responded, at the end of the second

Please see REGIONS: Page 23 ▸

Farm Loans Shift to Nonagricultural Banks

Comparison of agricultural and nonagricultural banks, with asset breakdown

	Number of Banks 1978	Number of Banks 1987	Market Share[1] 1978	Market Share[1] 1983	Market Share[1] 1987	Agricultural Concentration[2] 1987
Agricultural banks	5,445	4,491	65.3%	67.4%	60.2%	35.2%
Under $25 million	3,190	2,325	20.2	18.1	16.1	43.7
Over $25 million	2,255	2,166	45.2	49.2	44.1	32.9
Nonagricultural banks	8,904	9,047	34.7	32.6	39.8	1.4
Under $25 million	2,268	2,090	2.0	1.7	1.5	3.4
$25 million-$250 million	5,809	5,941	18.4	15.9	17.2	2.6
$250 million-$1 billion	618	687	5.7	5.1	6.0	1.3
Over $1 billion	209	329	8.6	10.0	15.1	0.9

[1]Share of bank held farm debt, in percent.
[2]Ratio of farm loans to total loans, in percent.
Source: June 1988 Economic Review, Kansas City Federal Reserve Bank.

Delaware Bank Finds Way to 'Export' Card Fees

By A. JOSEPH NEWMAN JR.

PHILADELPHIA — A modest-size player in the bank card business may have found a way around the legal barriers to "exporting" noninterest fees on cards beyond its home state.

The right of national banks to charge home-state interest rates on credit cards held by users in other states was upheld by the Supreme Court in 1978. The decision, however, does not address noninterest charges for late payment, bad checks, or exceeding credit limits.

Credit Cards

Bankers contend that such charges are an integral part of a card's interest rate. Several states have filed suits claiming that these charges violate consumer protection laws.

To settle a suit brought by the State of Iowa, First National Bank of Wilmington, Del., agreed in April to drop the fees that were in dispute — without admitting wrongdoing or making refunds. The bank is owned by Commercial Credit Co., New York.

Since the settlement, the Delaware bank has instituted two rates, one for creditworthy customers, another much higher rate for poor credit risks. The bank's Tier 1 credit card customers, in good standing, are charged prime plus 7.4 percentage points, with no annual fee.

Tier 2 interest rate is an additional 7.2 percentage points above the Tier 1 rate. Customers are subject to this higher rate if one of three interest rate-adjustment events tarnishes their account history: an account past due more than 40 days, an account over the limit by more than 3% that is not paid within 15 days of request, or an account over the limit by any amount that is past due more than 30 days.

Such accounts are also closed. The bank retains sole discretion about reopening an account at the customer's request.

Plate charges and over-limit charges have been abolished. The bad-check charge of $25 has been reduced to $15, but it is waived or lowered to conform with various state laws.

Mary McDermott, commercial credit spokeswoman at the First National Bank of Wilmington, said the bank continues to believe that less creditworthy customers should pay higher rates because they are more costly to the bank.

She described the two-tier interest rate as "a new procedure, but not a new policy."

Richard Cleland, head of Iowa's Consumer Protection Division in Des Moines, said he is "not crazy about the two-tier

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Wells to Lead Bank Financing Of Insilco Deal

By JED HOROWITZ

NEW YORK — Wells Fargo & Co. will lead the bank portion of the $963 million takeover financing of Insilco Corp. by Texas oilmen Cyril Wagner Jr. and Jack E. Brown, sources said.

The deal includes an $812.8 million tender offer and a refinancing of about $150 million of Insilco's $245 million of outstanding debt. It replaces an earlier takeover agreement that was to have been financed in part by a $530 million loan commitment from Chemical Bank.

"We will be using bank debt, but it will be less than Chemical's [commitment]," said Douglas Squires, a managing director at Merrill Lynch & Co., which is advising the Texas oilmen and investing in the deal.

Mr. Squires did not provide details, noting that INR Holdings Inc., the shell company set up to make the acquisition, is filing its offer today for the Meriden, Conn., company. But he said the buyout group does not want to accumulate and amortize much senior bank debt.

"We want to buy this collection of businesses and grow them rather than be forced to sell them to pay back bank debt," he said.

Mr. Wagner and Mr. Brown are apparently taking pains to reverse their reputation as canny raiders who profit but rarely complete a deal — thereby drawing the enmity of target companies forced to restructure in the process of defending themselves.

Insilco, whose widespread businesses include Red Devil paints, Rolodex desktop filers, and Taylor Publishing Co., last week accepted their offer of $31.75 a share. It supersedes a leveraged buyout bid led by First Boston Corp. and Insilco management at $29 a share, or $724 million.

Chemical received about $5.4 million in breakup fees when the earlier deal fizzled, said James Lee, who runs the bank's loan syndication department. The bank was brought into the deal by First Boston, according to an Insilco executive, who asked for anonymity.

Early Allies of Boone Pickens

Wells has historically been principal banker for Mr. Wagner and Mr. Brown, according to a Wall Street source. The Texans, who have large oil and gas holdings and real estate investments, were early investors in several of T. Boone Pickens' deals.

A Wells Fargo spokeswoman would not comment on the bank's role. A bank source confirmed, however, that Wells expects to lead the loan package, which will include a revolving credit and a term loan.

Wells Fargo does not sell its loans on the secondary market, but does syndicate them among other lenders. Market sources said they expect to be offered a piece of the Insilco deal.

Merill Lynch and Wagner Brown have committed to provide the $812.8 million necessary to complete the merger, but expect to have the bank financing in place before they begin buying the shares, Mr. Squires said.

The package will include a $780 million bridge loan that will be refinanced in part with junk bonds, according to *Investment Dealers' Digest*, a weekly trade publication. It said the takeover group hopes to lower Insilco's debt service and attract investors by including $150 million of equity warrants in the junk offering. ■

FINANCIAL TECHNOLOGY UPDATE

First Interstate Bank, of Denver, Colorado, recently installed NCR's 5088 Slimline ATMs. According to Patrick Ruckh, of First Interstate, the security of the NCR Slimline was a major factor in their decision to go with NCR. Since financial and service personnel work *inside* the Slimline's unique housing, they're physically safe, secure and dry. So are the media, electronics, and equipment.

Gem Savings, the fourth largest S & L in Ohio, just installed new NCR 5068 Financial Workstations. More than just PC's, these terminals communicate, process transactions, and fully automate the teller and platform. The move is made as part of Gem's on-going commitment to customer service.

Louis F. Bein, president of The Berthoud National Bank of Berthoud, Colorado, explains how NCR's Banker 80-II account processing system has affected the bank's business. "Detailed customer information is promptly available, making our contact with customers expeditious and efficient." In addition, Banker 80-II has made it possible to provide more customer services. The Customer Profitability and Loan Pricing module will now enable us to analyze profit segments of our business.

Farmers State Bank, of Circleville, Kansas, chose the NCR 7720-3000 On-line Counter-Top Item Processing System as a unique, cost-effective solution to reduce check-processing expenses. The 7720 Intelligent Workstation has enabled Farmers State to reduce correspondent bank charges, and cut labor expenses by minimizing the number of times an item need be handled. The PC based System proves, encodes, endorses, lists, sorts, and captures check data, and communicates to and from a host computer via industry standard protocols.

For additional information on these new developments from NCR, phone 1-800-CALL NCR.

NCR

COMMENTARY

Treasury 'Accounting' Could Resolve FSLIC Problem

By STAN SILVERBERG

MOST analysts who are familiar with saving and loan associations are convinced that the cost of closing or merging insolvent S&Ls is way beyond the resources that will be available to the Federal Savings and Loan Insurance Corp., assuming no new revenue sources.

Cost estimates keep rising as reported S&L losses and the net worth deficiency of insolvent S&Ls increase. The latter have reported losses of about $18 billion during the five quarters that ended March 31, 1988.

If insolvent S&Ls could be closed or merged in the next year or two, the cost, under the most favorable circumstances would be at least $50 billion and informed analysts recently placed estimates in the $60 billion to $75 billion range. The passage of time will increase the cost of disposing of insolvent S&Ls.

The FSLIC has attempted to conserve its available cash by offering its IOUs (FSLIC notes) to institutions acquiring insolvent S&Ls and by entering into long-term assistance agreements with little cash up front. Those who have accepted FSLIC notes presumably assume that the FSLIC will be bailed out or that the Treasury or the FSLIC's successor will honor the notes.

'Getting additional funds from solvent S&Ls will be extremely difficult and probably self-defeating since it would risk pushing more institutions into insolvency.'
— Stan Silverberg

The FSLIC has also tried to reduce costs by entering into "thin deals" whereby other S&Ls or investors acquire insolvent institutions. Some of these transactions are with marginal S&Ls that might not otherwise survive.

They are willing to take a limited amount of assistance as long as it counts for regulatory capital and assures their survival for several years. In some transactions, forebearances on capital requirements and growth restraints allow institutions or investors to operate with enormous leverage so that the potential for large gains outweigh the risk of loss on a small capital base (most of the risk is assumed by the FSLIC).

Possibility of Future Problems

These arrangements increase the probability that the deal will come back as a future problem with future costs. They also impose a burden on competing institutions that have to meet regulatory standards and promise to make life more difficult for whomever supervises S&Ls in the future.

The FSLIC can also delay dealing with insolvent S&Ls. However, delay is very expensive.

The real (as opposed to reported) net worth deficiency in insolvent S&Ls has to be financed, and the cost of funds and operating expenses in these institutions is very high. Together, they probably amount to at least 11% of liabilities so that financing a $60 billion "hole" costs more than $6 billion annually.

In addition, there is apt to be further asset deterioration resulting from inappropriate incentives for managers of insolvent institutions, problems related to attracting or maintaining quality management, and a deteriorating franchise. While these factors cannot be easily quantified, there is good reason to believe that they will raise future costs considerably.

Keeping insolvent institutions alive keeps the cost of funds high for solvent S&Ls and exposes them to other competition that further reduces margins.

In addition, it makes it difficult for the Federal Home Loan Bank System to pursue the tough, even-handed supervisory policy that is needed and to implement necessary changes in the insurance-supervisory system. Thus, there is a very strong case for closing or merging insolvent S&Ls as quickly as possible.

Money Appears to be the Problem

The problem appears to be money. The FSLIC is substantially insolvent. S&Ls are already paying an extremely high assessment premium on their deposits.

Getting additional funds from solvent S&Ls will be extremely difficult and probably self-defeating since it would risk pushing more institutions into insolvency. If Congress chooses to tap some or even all of the Federal Deposit Insurance Corp.'s net worth, that would not provide sufficient resources since most of the FSLIC's "hole" would remain.

A large share of the cost of resolving the S&L problem will necessarily have to come from general Treasury funds, and if the problem is to be resolved quickly, most of the funding will have to come from the Treasury (Congress could elect to recapture some of this outlay through future insurance assessments).

A case can be made that government policy — which contributed to wide swings in interest rates, opposed variable rate mortgages, and permitted lax supervision of S&Ls — is far more responsible for today's savings and loan problems than the solvent component of the S&L industry.

A Treasury "outlay" of, say, $50 billion over the next few years might be hard for Congress to swallow. However, as suggested, delay will raise the present value cost in addition to imposing indirect costs on the system.

While we would not want to minimize the importance of what would appear to be so large a budget outlay, it is easy to exaggerate its financial and economic significance. The FSLIC is substantially insolvent. The Competitive Equality in Banking Act of 1987 specifically placed the Treasury behind the FSLIC as a guarantor of FSLIC-insured deposits.

Thus, the Treasury is already on the line to pay the cost, even though, technically, the obligation is not currently acknowledged as Treasury debt. The expectation that the Treasury will eventually have to pay is very likely already built into prevailing Treasury yields. When the funds are obligated and "spent," Treasury debt will increase.

If the Treasury were a private corporation, accountants probably would have required the Treasury to book the indebtedness. At a minimum, analysts would have paid considerable attention to the footnote.

Were it not for existing accounting convention that does not count Financial Corp. borrowing and FSLIC notes as part of the federal debt, about $10 billion of the Treasury cost would have already been "incurred."

It is important to appreciate that, from an economic standpoint, the cost of the S&L and the FSLIC problem (up to today's exposure) has already been incurred.

Projects that were not economically viable have already been built or partially built. Interest payments in excess of income have already been made, private planes have already been bought and flown, etc.

When the Treasury pays the bill there will be no significant purchase or bidding for economic resources. The money will facilitate closing and merging insolvent S&Ls. While some jobs will be lost and some new ones created, the magnitude of these economic effects will be in the millions of dollars — not in billions.

Current depositors or other creditors will be no richer or no more liquid through the process. Depositors know their claims are good whether the Treasury chooses to back them now or in the future.

Some churning will occur in financial markets. Some high cost deposits will disappear and some portfolios will be adjusted to take additional Treasury obligations. However, it is not even obvious whether the net financial market impact of all this ought to be higher or lower interest rates (clearly it will result in lower deposit costs vis-a-vis Treasury yields).

Unless taxes or expenditures are otherwise affected, there would be no basic change in the demand for real resources (apart from a net reduction in jobs and excess facilities associated with closing or merging failing S&Ls). If Congress sought to raise tax receipts or lower expenditures to "offset" the cost, the impact of this clearly would be deflationary. Congress is not likely to do this.

The only unambiguous result of the Treasury outlay will be a rise in the government's debt. But the interest payments on this additional Treasury debt will be substantially less than the growth rate of the Treasury's obligation in connection with the FSLIC. Thus, paying the bill sooner will ultimately result in less cost and less government debt.

To reiterate, most of the costs of current S&L insolvencies have already been incurred. The process by which the Treasury pays largely involves accounting.

No real resources will be purchased by the Treasury and no significant transfer payments will be made. This is not to say that there won't be substantial financial and real benefits from resolving the S&L problem.

It is important that Congress appreciate that the "budgetary outlay" to pay the cost would not be like other outlays. Resources won't be drawn away from defense or education. Transfers won't be made to dishonest or incompetent S&L executives. We are basically talking about some accounting adjustments, and they should be treated as such. ■

Mr. Silverberg, formerly director of research and strategic planning at the FDIC, is now special consultant to Golembe Associates.

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BRIEF COMMENTARY

Good News from the Competition?

The following item appeared in the June 1988 edition of Massachusetts Banker, a publication of the Massachusetts Bankers Association.

□

IT'S great news," said the bank chief executive officer. What news? That the American Association of Retired People has just launched its new credit union.

Drawing on an AARP membership of 28 million, it could easily — and quickly — become the largest in the country, out-ranking even the 825,000-member Navy Federal Credit Union.

Why such an enthusiastic response from a banker? Because in his view the AARP credit union promises to be such a formidable competitor that many banks which have ignored the credit union challenge will be prodded into action. Credit unions can expect a lot more attention going to their tax-exempt status and capital requirements, thanks to AARP.

"It had to get worse before it could get better," the CEO said of the competitive inequality that has so favored credit unions and troubled community bankers. "And this is definitely worse!" ■

AN AMERICAN BANKER SURVEY

Employees Encouraged to Bank at Workplace

By JEFFREY KUTLER
Part of a Series

Whether the intention is to boost employees' morale or keep them close to the office on paydays, about one corporation in three would encourage its workers to bank on the premises, according to the first *American Banker* Corporate America Survey.

That finding points to a cross-selling opportunity for banks. Consumer banking conveniences such as check cashing, automated teller machines, and even full-service branches at the workplace are potential additions to the traditional commercial banking relationship.

The survey was conducted in March and April by Trans Data Corp., Salisbury, Md., a research affiliate of this newspaper. It is based on interviews of executives at 413 randomly selected companies nationwide, none in the financial services industry. These executives are responsible for choosing the financial services and institutions their companies use.

The survey shows that 29% of companies with at least $10 million in annual sales would allow a mobile bank on their grounds or in their office space.

A slightly larger group, 32%, say they either have ATMs accessible to employees or would be willing to provide such access.

These findings show that a sizable minority of companies would play a role in helping banks serve employees. If banks can exploit such opportunities — as a few are trying to do — they might make inroads in an employee-benefits market that insurance companies have long dominated.

Automatic payroll deposit is available at 52% of all companies in the survey and 73% of those with more than $250 million in annual sales. Providing this service may give banks an opening for a variety of retail services delivered through the workplace.

Favorable Views of Mobile Branch

One question in the survey presupposed a mobile facility such as the "Banking a la Carte" staffed kiosk that Chemical Bank provides at business offices in the New York area. Trans Data Corp. obtained consistent reactions to mobile facilities from companies of all sizes.

Of middle-market companies, those with $10 million to $250 million in annual sales, 27% would allow mobile branches. Firms with over $250 million in sales had a 30% favorable response rate. These percentages are equivalent given the statistical margin of error (plus or minus 5% for this part of the sample, and higher for smaller segments of the sample).

The consistency is apparent across industries, with percentages of companies that would admit a mobile bank ranging from 25% in business services to 33% in wholesale and retail trade.

There is no discernible difference between companies employing fewer than 1,000 workers (29%) and more than 1,000 (28%), or between the Snow Belt (Northeast and North Central regions, 30%) and the Sun Belt (South and West, 27%).

There is a slight aberration in the nine northeastern states, from Pennsylvania and New Jersey north to Maine. There, an above-average 35% of 83 respondents said they would allow a mobile bank on their premises. This might be explained by the companies' concern over the time employees need to cash checks at crowded bank branches in the region's cities.

Company executives seem to realize that automated tellers, particularly in tandem with a direct payroll-deposit service, would solve such problems. Employees could get cash from an ATM on payday or any other day.

17% Have ATMs Available

Seventeen percent of all companies surveyed have ATMs on their premises for employee use. The percentage presumably includes firms in office buildings or office parks with one or more centrally located ATMs.

About 15% of companies say they don't have ATMs on the premises but would be interested in providing them, bringing the total positive response to 32%.

The largest companies are the most in favor of the idea: 26% of those with more than $250 million in sales have ATMs available, and 19% are interested in providing the service.

Only 7% of middle-market companies have ATMs available, with 11% expressing interest. A similar response came from firms with fewer than 1,000 employees: 9% report ATMs are nearby and 11% would like to have them.

Automated tellers are available at 20% of companies with more than 1,000 employees, while an additional 17% express interest. For companies with more than 10,000 employees, 29% say they have ATMs and 19% say they might add them.

Bankers are indeed placing ATMs at business locations, as part of a continuing effort to install the machines at sites other than bank branches. But ATMs on corporate sites have been less prominent than those at airports, supermarkets, and shopping malls.

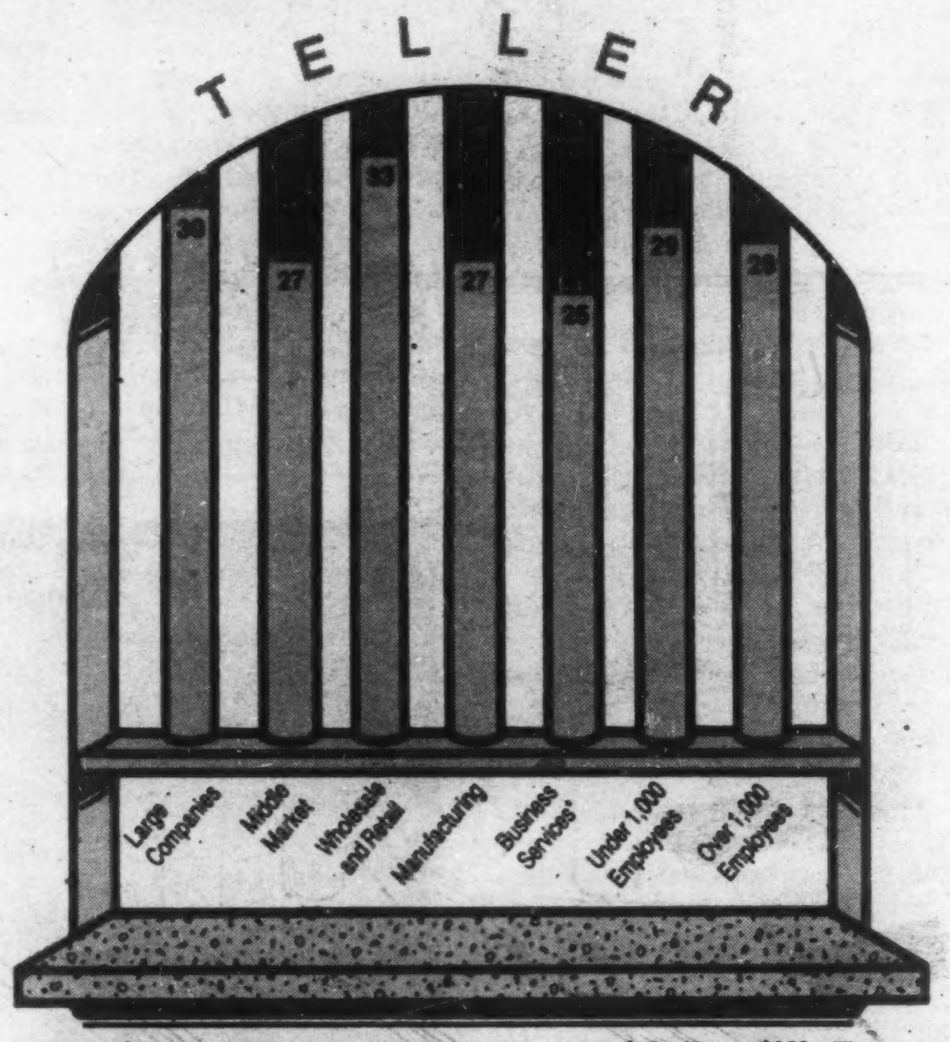
Some ATMs — placed in what bankers consider untraditional locations, such as airports and hospitals — serve those facilities' employees as much as they do the general public.

"I don't have exact numbers, but I know more and more ATMs are showing up at the workplace," said Linda Fenner Zimmer, an ATM industry trend-watcher based in Marlborough, Conn.

"It's happening," she said, "but quietly. In some cases, a company will ask for an ATM as part of its banking relationship. A bank might work out an arrangement in which the corporation owns or subsidizes the machine."

Banking on Company Premises

Companies that would allow mobile bank branches on their premises to serve employees (percentages of selected market segments)



Base: 413 large (over $250 million sales) and middle market ($10 million to $250 million sales) companies.
*With only 56 respondents in this group, percentage is less statistically reliable than in other segments.
Source: *American Banker* Corporate Survey

Several major institutions marketing bank-at-work services have had to resolve such tactical questions as what sites have enough people to justify an ATM or minibranch, how much to charge for it, and which bank department is responsible for the service.

Banks got into the bank-at-work business as an extension of their commercial relationships. For some, the desire to have a presence at corporate sites predated the advent of self-service banking machines.

ATMs are not an important element in Bank-at-Work, First National Bank of Chicago's program, primarily because the Chicago bank has been in that business since 1969, when ATMs were not widespread. Built around the payroll function, Bank-at-Work is offered to Chicago-area companies of virtually any size, from 5 to 5,000 employees, a bank spokesman said.

Although it markets the direct-deposit service to companies, the bank hopes the employees will sign up for a package of banking services at a discount price. Only within the past year and a half has First Chicago installed its first two ATMs in the workplace.

At Chemical Bank the marketing slogan explains the strategy: "Better banking for your employees. Better benefits for your organization."

The New York bank developed its workplace service in the early 1980s and created a separate division for it in 1983. ATMs are one aspect of a range of services from basic check cashing to a consumer account package offered to employees at "group rates." The latter might include free checking and a no-fee credit card.

"The Chemical Bank at Work program is meeting a good deal of success, but interest in ATMs tends to fall off when you get into a discussion of the economics," said David Mooney, senior vice president in Chemical's consumer banking group. More interest has been generated by the fully equipped "Banking a la Carte," which Chemical moves into corporate locations on paydays.

"Originally, we viewed this as a way to solve check-cashing problems, but now our focus is on serving the customer, be it the consumer or corporation," Mr. Mooney said. "A lot of companies feel strongly about providing no-cost or low-cost banking services to employees, and they feel an obligation about making sure employees can cash checks. They are also very concerned about employee productivity.

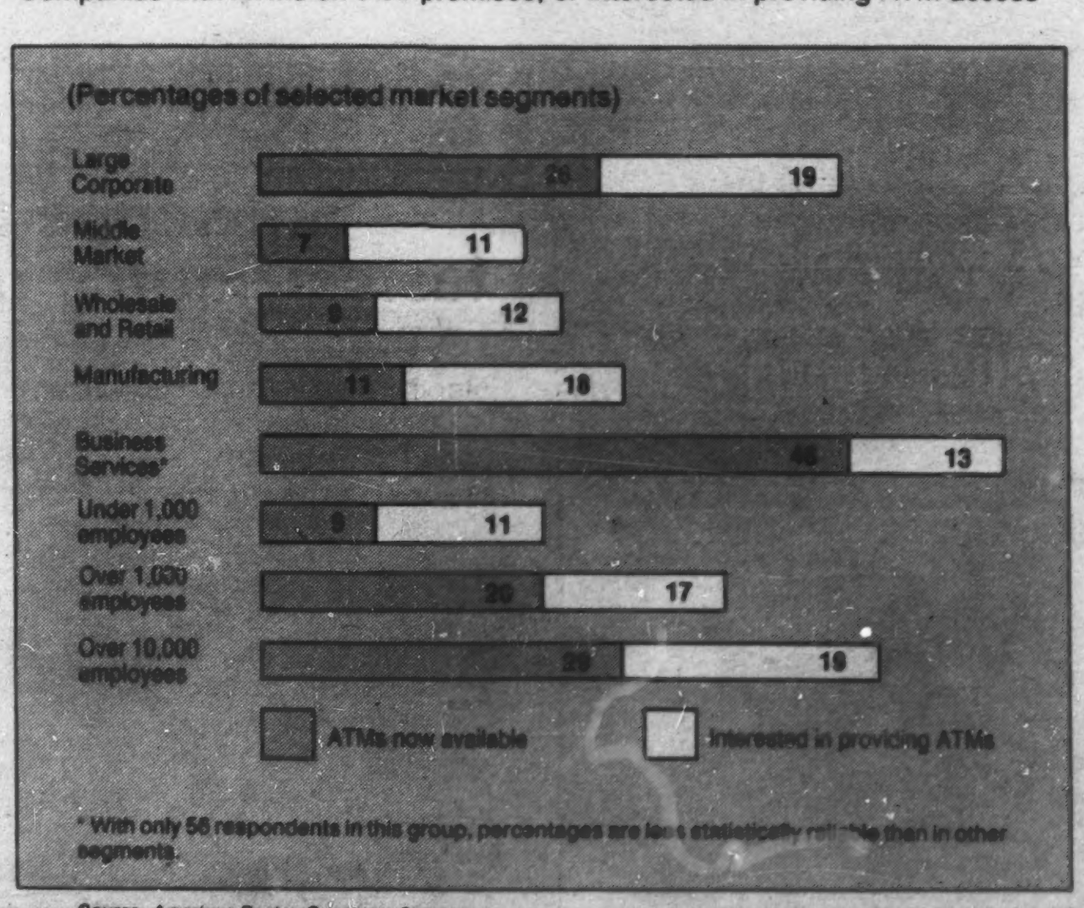
"We offer ways to meet those needs at very low cost to the companies and their employees," Mr. Mooney said.

Wells Fargo Bank. San Francisco, regards its eight-year-old workplace banking program, called Expresservice, as an important adjunct to its branch and ATM networks, which are

Please see SURVEY: Page 18 ▸

ATMs on Company Premises

Companies with ATMs on their premises, or interested in providing ATM access



Source: *American Banker* Corporate Survey

AN AMERICAN BANKER SURVEY

Direct Deposit Enters Corporate Mainstream

➤ Continued from Page 1

nancial services and institutions their companies use.

Fifty-two percent of the companies surveyed currently offer direct deposit. An additional 15% of these middle-market and larger organizations say they are interested in providing direct deposit, bringing the potential acceptance rate to 67%.

At the average company now offering the service, 46% of employees receive their paychecks electronically. But one in five corporations has an acceptance rate of 75% or greater.

Big Companies Embrace Concept

A firm's propensity to offer direct deposit and to win employee acceptance grows as company size increases, whether measured by annual sales or by number of workers.

Among the beneficiaries of this trend is the automated clearing house network, which, after years of disappointing its promoters, is now increasing its transaction volume by about 30% a year. This year the network is expected to handle 1.2 billion transactions, or about 2% of checks written annually in the United States.

More than half of clearing house payments will be some form of direct credit into recipients' accounts — primarily Social Security and other government benefits, and government and private-sector payrolls.

Of 2.16 billion salary payments nationwide in 1986, 163 million, or 8%, were direct deposited, according to market research cited by the National Automated Clearing House Association.

The association, an umbrella group for 42 regional associations that promote such paperless payments, has set a goal of generating one billion new electronic credits in the private sector by 1993.

The *American Banker*'s Corporate America Survey shows that the clearing houses are on their way to meeting that target.

"Direct deposit seems to be part of an across-the-board trend that reflects a true corporate acceptance of what we have to offer," said William R. Moroney, president of the Washington-based clearing house group.

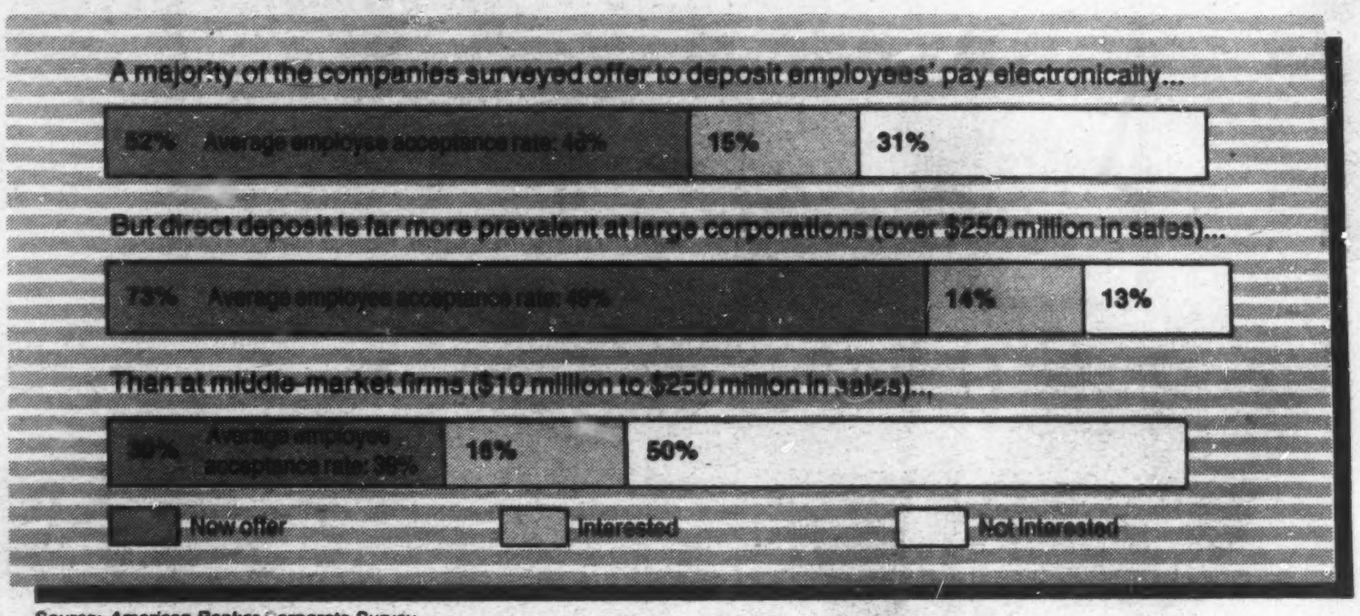
He said the survey findings confirm his own conclusion that the direct-payment facility is maturing after 15 years of "gestation" that tried the patience of the electronic banking industry.

"A product is usually considered mature when it reaches 50% of its market and then begins to grow very rapidly toward 100%," Mr. Moroney said.

"The period between introduction and 50% penetration is the gestation time. Total automated clearing house volume is still only 2% of checks, but in at least some market segments direct deposit has clearly reached a mature stage.

"It is just time for this to happen," he said. "It makes sense. Corporations are getting over their fetish of playing the float and are concentrating on efficiency in cash management and other aspects of their banking and employee relationships. The ACH has begun to really take off as a result."

Direct Payroll Deposit


A majority of the companies surveyed offer to deposit employees' pay electronically...
52% Average employee acceptance rate: 43%
15%
31%
But direct deposit is far more prevalent at large corporations (over $250 million in sales)...
73% Average employee acceptance rate: 49%
14%
13%
Then at middle-market firms ($10 million to $250 million in sales)...
32% Average employee acceptance rate: 39%
18%
50%
Now offer
Interested
Not interested

Source: *American Banker* Corporate Survey

Varying Degrees of Success

Mr. Moroney said it was his impression — based on conversations with bankers around the country — that the 46% average acceptance rate by employees obscures the fact that some firms do much better, and others have not done much direct depositing at all.

The Corporate America Survey data bear this out. While 20% of the sample reports acceptance rates above 75%, 24% of the companies are below 25%. Fifteen percent of the firms have failed to make more than one-tenth of their paychecks electronic.

Disparities in direct-deposit performance are especially pronounced when middle-market firms — those with $10 million up to $250 million in annual sales — are compared with larger companies.

Above the $250 million threshold, 73% of corporations already offer direct deposit and report an average 49% employee acceptance rate.

Another 14% of these larger firms express an interest in offering the service. That adds up to a potential large-corporate penetration of 87%, 20 percentage points higher than for the entire group surveyed.

The aggregate figures are depressed by the middle-market segment, in which only 30% of companies currently offer direct deposit and another 16% express interest. Fully 29% of middle-market firms offering the service report acceptance by 10% or fewer employees. This compares to only 9% of the large companies reporting low acceptance rates.

Availability of direct deposit also correlates with the number of employees at a company. In the middle-market group, the service is offered by 23% of companies with fewer than 1,000 employees and by 37% of those with more than 1,000 employees.

At the larger organizations, $250 million-and-over, direct deposit is available from 57% of the relatively few companies in the survey with under 10,000 employees, and from 78% of the rest.

There are no major statistical variations among industries in their response to direct deposit offerings, but there is a geographical difference. Companies in the Northeast and Midwest are almost 50% more likely than those in the South and West to offer direct deposit. Where 60% of Northeast and Midwest firms provide the service, only 44% offer it in the rest of the country.

The proportion of firms in the South and West not interested in direct deposit — 38% — is significantly higher than the 24% of companies rejecting the idea in the northern regions.

These variations say more about where large companies and their banks are based than about any inherent differences in geography. While a decision to offer direct deposit may be made at corporate headquarters, the payments can be received anywhere via the automated clearing house.

Strong Growth in Midwest

Some of the most aggressive direct deposit promotions have taken place in the Midwest, coordinated by regional automated clearing house associations.

In the six states served by Mid-America Payment Exchange, an Omaha-based clearing house, the number of companies participating in the direct deposit program doubled to 1,857 in 1987. Two-thirds of the companies using automated clearing house services in that region were using direct deposits, and they accounted for 12% of private-sector transactions.

Much of the region's direct deposit growth was the result of banks signing smaller companies, according to an analysis published by Mid-America. This is happening nationwide as bank marketers focus more on middle-market and smaller companies.

"There really is no business too small to pay its employees electronically," said William Nelson, a member of the national association's staff who formerly sold automated clearing house services for Mellon Bank, Pittsburgh.

"Some companies have literally one person on direct deposit. The payments can be entered into the ACH easily by many of the payroll-service companies on a turnkey basis, or directly by the companies using

Please see SURVEY: Page 18➤

How Marion Labs Sold Direct Deposit

When direct deposit is marketed well, the bank's corporate customers play an active role in selling the service. This was the case at Marion Laboratories Inc., Kansas City, Mo., one of the most successful companies at persuading employees to take their pay electronically.

After four years of campaigning, Marion Laboratories is directly depositing paychecks for 85% of its 3,800 employees across the country.

"We marketed it as an employee benefit, a time-saving convenience," said Denise Lynch, disbursements accounting manager for the pharmaceutical firm, which has yearly sales of $750 million. "We never positioned it as something that was a benefit only to the corporation."

Marion got some support from its bank, Boatmen's First National Bank of Kansas City, in the form of brochures, forms, and related materials. But the marketing of direct deposit was very much a company effort.

"We looked at other direct deposit programs and decided that it was best to make it voluntary," Ms. Lynch said. "There is some question about the legality of forcing people to take direct deposit, but I disagree in principle with the idea of making it mandatory. I do support a strong selling job, and that's what we did.

"If you have a good program, it will sell itself," she said.

"Often these programs are rolled out with one-way communication, with the company sending letters and expecting employees to react," Ms. Lynch said. "We recognized that people would have a lot of questions about the service, so we set up lines of communication to address their concerns one on one," she said.

The program has won the greatest acceptance — more than 90% — among field sales representatives and salaried home-office workers. Use of the service among hourly and part-time personnel, including many production-line workers, is in the 66% range, but Ms. Lynch hopes to raise that to 75% within a year. She said her ultimate goal is 100% participation.

— Jeffrey Kutler

How the Survey Was Conducted

The first *American Banker* Corporate America Survey is based on telephone interviews with executives of 413 randomly selected companies, none of which are financial services firms.

Trans Data Corp., a research affiliate of the *American Banker*, developed the survey questionnaire in collaboration with the newspaper's editors and reporters. Trans Data, Salisbury, Md., conducted the interviews, tabulated the responses, and assisted in the preliminary analysis for the survey.

The interviews were conducted in March and April with executives responsible for choosing the financial services and institutions their companies use.

The survey was divided into two groups: a middle-market sample of 205 companies with revenues between $10 million and $250 million, and a large-corporation sample of 208 companies with annual revenues of $250 million or more. Within those two groups, companies were randomly selected from a universe of 80,531 middle-market companies and 3,010 large corporations.

The sample has a margin of error of plus or minus five percentage points with a 90% confidence level. That means if 60% of the companies give a response, there is a 90% probability that the actual percentage is between 55% and 65%. This margin of error applies to the total sample. Subgroups with smaller sample sizes have greater margins of error.

AN AMERICAN BANKER SURVEY

Direct Deposit Enters Corporate Mainstream

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personal computers," Mr. Nelson said.

"Large companies with big numbers of payments gain efficiencies and save money by paying their employees directly," Mr. Moroney said. "The smaller firms may not be able to identify benefits in terms of cost savings, but they would certainly be attracted by the convenience of direct deposit."

Although the opportunities to sell direct deposit are greatest at companies doing less than $250 million in annual sales, the large-corporation market should not be neglected, said John F. Good, executive director of Mid-America. The clearing house, based in Cleveland, serves northern Ohio.

Mr. Good, a tireless promoter of direct deposit both in and out of his region, said many bankers have targeted smaller companies without realizing that some very large direct deposit accounts have yet to be won at big companies. As examples he cited two *Fortune* 1000 companies — Marriott Corp. and United Air Lines Inc. — which have 250,000 employees between them and make little if any use of direct deposit.

Banks Need to Knock on Doors

"There is a tremendous market left for this service, and it's not just in the middle market," he said. "I don't think the banks are doing as good a job as they can in marketing it."

Mr. Good suggests to banks in his area that they complement their corporate calling efforts, with what he calls "receive side" marketing. Conventional calling focuses on signing companies to originate direct deposits and other electronic payments. He said he would like to see banks market direct deposit to potential recipients of the payments.

"Every week, financial institutions can look at ACH reports that list all originating companies," Mr. Good said. "Banks can identify customers who are not receiving salary deposits from those companies, and market the service to them directly. There is a whole marketing opportunity on the receive side."

The National Automated Clearing House Association is also exploring the receive side.

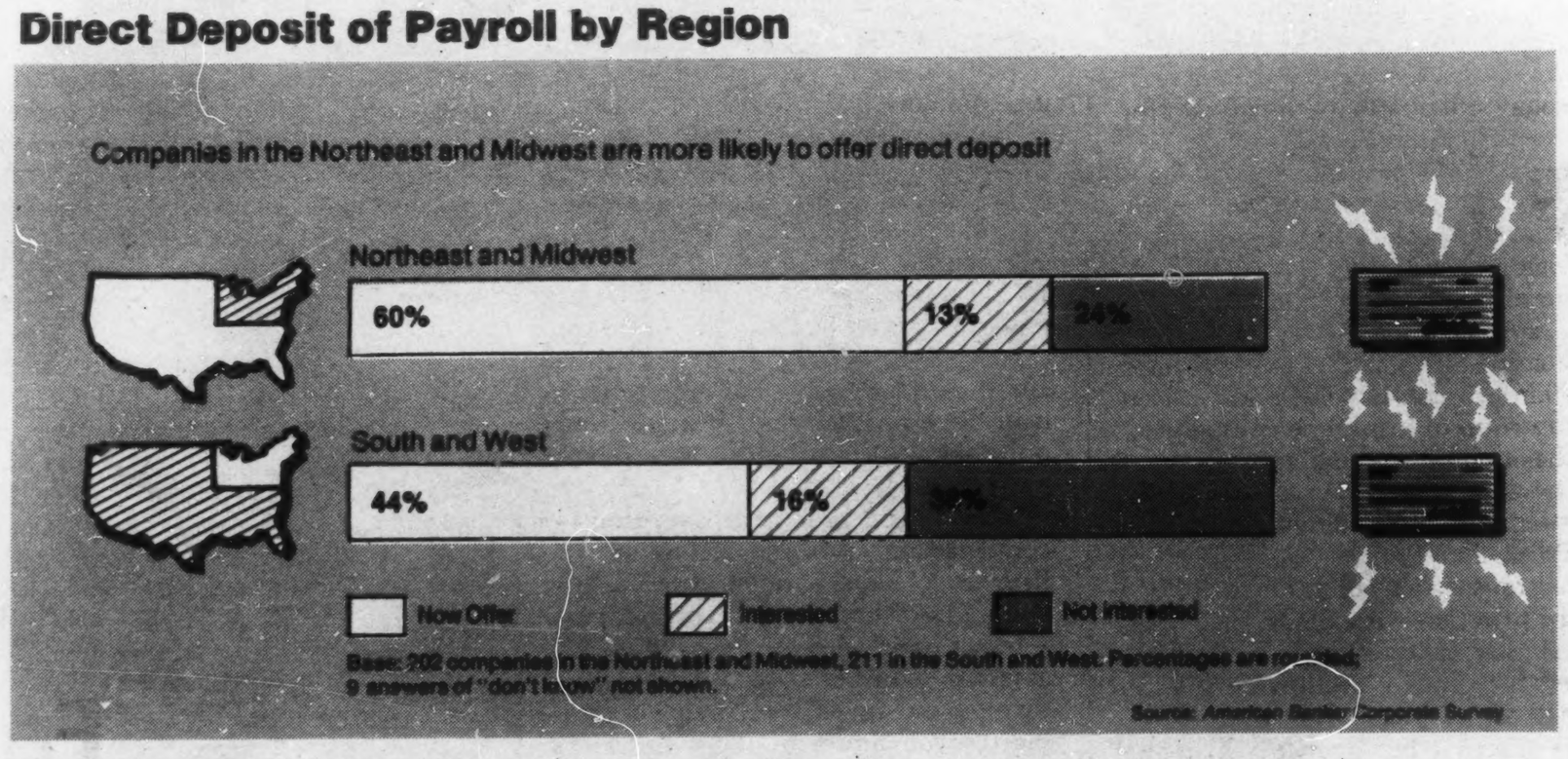
"We are looking to create a mechanism that would allow consumers who work for certain employers to sign up for direct deposit at their banks, perhaps even when they open an account," Mr. Moroney said. "The answer may be a directory that lists the companies that offer direct deposit."

The national association, meanwhile, is preparing to spend $3 million to $5 million on what would be the first coordinated, nationwide campaign to promote direct deposit. Some of the money might be spent on media advertising, the rest on brochures and materials that financial institutions could use locally.

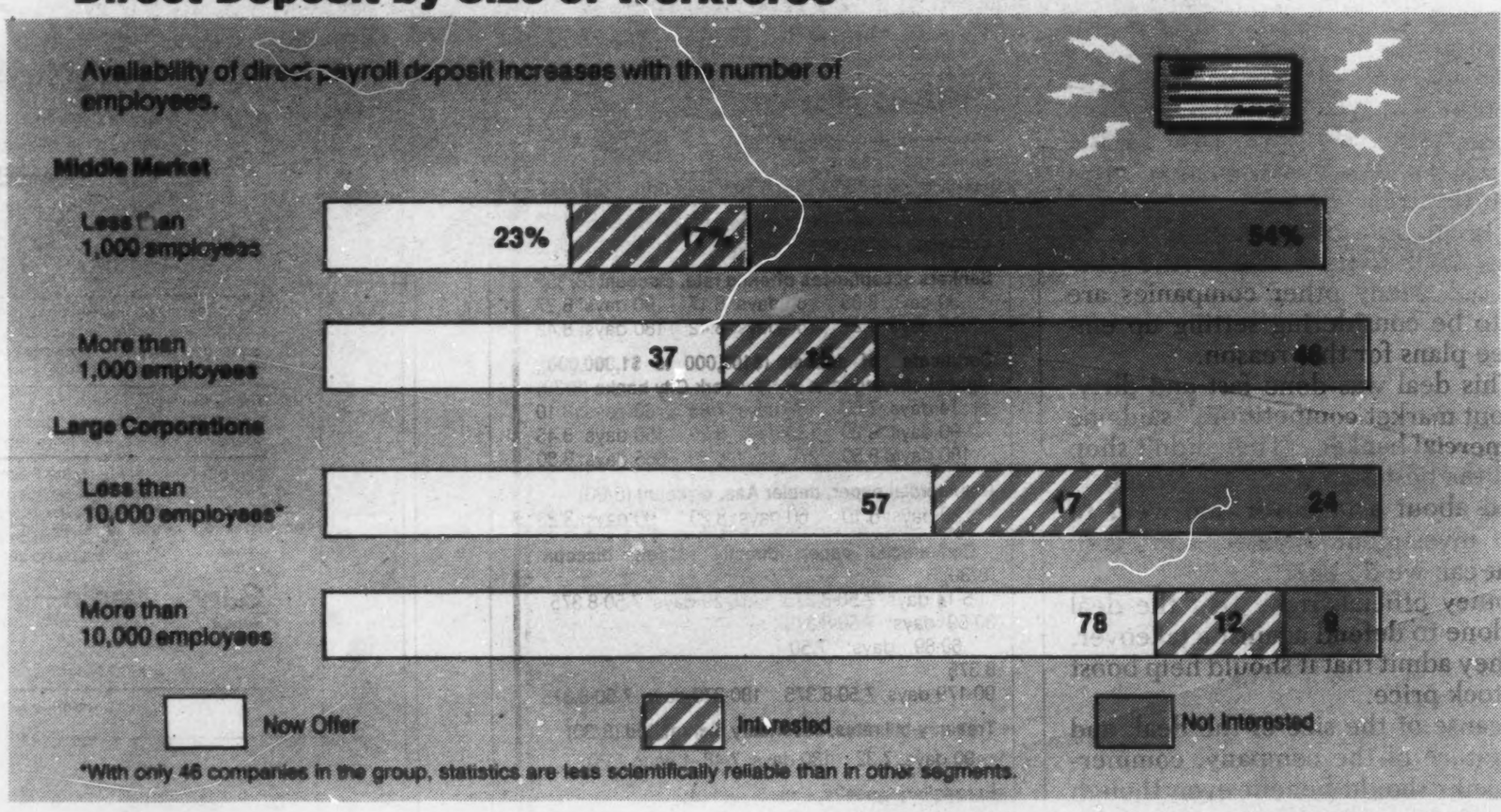
"Maybe we will be lighting the afterburners on something that has already begun to take off," Mr. Moroney said when apprised of the *American Banker* survey results. ■

Next: Commercial bankers seem to be shortchanging their middle-market clients on personal service. Another article in this corporate survey series appears today on page 14.

Direct Deposit of Payroll by Region


Companies in the Northeast and Midwest are more likely to offer direct deposit
Northeast and Midwest
60%
13%
24%
South and West
44%
16%
Now Offer
Interested
Not Interested
Base: 202 companies in the Northeast and Midwest, 211 in the South and West. Percentages are rounded; 9 answers of "don't know" not shown.
Source: American Banker Corporate Survey

Direct Deposit by Size of Workforce



Source: *American Banker* Corporate Survey

Employees Encouraged to Do Their Banking Where They Work

► Continued from Page 14

among the most extensive in the nation.

The bank has put minibranches at 31 corporate sites in California, said Lisa Worthington, a bank spokeswoman. A customer service representative who opens accounts, sells services, answers questions — but does not handle cash — is present during normal business hours. Cash dispensing and other teller functions are handled by a nearby ATM, which operates at all hours.

Wells Fargo will install Expresservice facilities only at work sites with more than 1,100 people, Ms. Worthington said. Participants in the program include the computer maker Hewlett-Packard Co., several hospitals and medical centers, and the *San Jose Mercury News*.

At Norwest Corp., Minneapolis, assistant vice president Bill Brewer never bought the assumption that corporations might welcome minibranches as an employee convenience, but would not pay for ATMs.

Convinced that ATMs are the most efficient alternative for corporate locations with at least 1,500 workers or passersby, Mr. Brewer offers deals that many large companies in his area have found difficult to pass up. He is actually selling them ATMs.

Like many bank-at-work marketers, Mr. Brewer is reluctant to give the names of companies that have bought ATMs and related support services from Norwest Bank. He did say, however, that they include a large insurance company, a car rental firm, and several manufacturing plants with work forces numbering in the thousands.

The machines are connected to Instant Cash, Norwest's multistate ATM network. The corporations that own the machines receive transaction fees, as would any member bank.

"We put a business case in front of the corporation," Mr. Brewer said, explaining his approach. "We present to them the idea of ownership. We point out that they can generate income from the transactions, and this helps them justify the cost."

Mr. Brewer said Norwest has been marketing workplace ATMs since 1977, when Minnesota law was changed to allow ATM installations away from bank premises. Marketing has intensified in the past few years as ATM prices have fallen. A number of used ATMs, which cost less than new ones and are adequate to the traffic volumes at many corporate locations, have also come on the market.

"I don't think we've had one failure over the years," Mr. Brewer said. "The biggest lesson is that you do not have to give the service away. A corporation can own the machine and profit from it, and it is a service that solidifies the banking relationship."

The willingness of Mr. Brewer's customers to pay is an exception to the rule, said Robert Barone, president of Diebold Inc., Canton, Ohio. Diebold is the nation's leading ATM manufacturer. For cost reasons, corporations rarely insist that banks bring ATMs on-site, he said. Eastman Kodak Co. is a rare corporate customer, he said, in that it took such an initiative with Chase Lincoln First Bank of Rochester, N.Y.

"Corporations may willingly pay fees, but, typically, banks push ATM placements as part of a direct payroll-deposit package," Mr. Barone said.

"If corporations had to pay for the ATMs, I don't think the idea would fly," he said. "All they see are soft, hard-to-quantify benefits like time saved or convenience."

Mr. Brewer said attitudes can change if bankers approach the bank-at-work market in a more purposeful, organized way. At most banks, retail and corporate departments remain uncoordinated. Few have groups assigned specifically to selling workplace services.

"In the best of all worlds, we as bankers should be selling payroll, automated clearing house, cash management, lending, and employee banking services to our corporate clients all at once," Mr. Brewer said. ■

Wilmington Bank Develops Strategy To 'Export' Fees

► Continued from Page 2

system from a consumer-protection point of view." But, he conceded, "It does not violate any Iowa law."

Iowa also has fee-export suits pending against Citibank (South Dakota), Sioux Falls, a unit of New York's Citicorp, and several units of United Missouri Bancshares Inc., Kansas City.

The Wilmington bank's new rate structure "does not signal a trend" in the card industry, according to Alan S. Kaplinsky, a Philadelphia attorney who heads the American Bar Association committee on consumer financial services.

"It's a very clever way to try to overcome the problem," Mr. Kaplinsky said, but it is "not a sure-fire way to eliminate it." The additional 7.2 percentage points, Mr. Kaplinsky said, "is really a delinquency charge."

Mr. Kaplinsky noted that the addition of 7.2 percentage points to the first-tier rate of prime plus 7.4 percentage points could be characterized as "unconscionable," especially in relation to the actual cost of handling or closing over-limit and past-due accounts. With the prime currently at 10%, cardholders in Tier 2 are paying 24.6%.

The contention that such rates are unconscionable appeared in a 1987 class-action suit against Crocker National Bank, San Francisco. Attorney Paul Purdue sued over a $6 bad-check fee, claiming it cost the bank only 50 cents to process the paperwork.

Wells Fargo Bank, which acquired Crocker, settled the suit and agreed to make refunds.

First National Bank of Wilmington had $294,474,000 in credit card and related loans outstanding at the end of 1986, ranking it No. 58 nationally, according to the *American Banker*'s September 1987 tabulation. ■

Hawkeye to Pay $2 Million to Settle Fraud Case

By ANDREA BENNETT
Midwest Bureau

CHICAGO — Hawkeye Bancorp. said it has agreed to pay $2.08 million to settle a fraud suit against the company and its current president, Paul D. Dunlap, that arose from the 1979 sale of a southeastern Iowa bank.

In a press release, Hawkeye said its board had unanimously approved the settlement, and added "it was in the best interests of the corporation to settle." The Des Moines-based Hawkeye declined to comment further.

"Hawkeye is prospering. It is doing well," said Richard Levy, an attorney for Hawkeye. "It wanted to get an unpleasant incident behind it."

The lawsuit arose out from the 1979 purchase of the Mt. Pleasant Bank and Trust Co., Mt. Pleasant, Iowa, by eight businessmen. The eight men claimed that Mr. Dunlap and Hawkeye withheld key information from the purchasers. The bank failed in August 1982.

In October, following a seven-week trial in U.S. District Court in Des Moines, a jury convicted Hawkeye and Mr. Dunlap of common-law fraud, federal and state securities fraud, and also found that Mr. Dunlap had negligently misrepresented the condition of the bank. The jury ordered Mr. Dunlap and Hawkeye to pay $3.4 million to the eight purchasers.

That verdict was appealed. In March, the verdict against Hawkeye was overturned. But a decision on the appeal to the judgment against Mr. Dunlap was pending when the case was settled, said Larry Marcucci, an attorney for the former bank owners.

Bill Koehn, an attorney for Mr. Dunlap, called the settlement "a matter of pure economics. We felt very strongly we had a good opportunity on appeal to get [the verdict] set aside." The fraud verdict against Mr. Dunlap was also vacated as part of the settlement, Hawkeye's attorneys said.

Mr. Marcucci said attorneys for the parties involved had been discussing a settlement since spring. Hawkeye's earlier offer to settle for $1 million was rejected, court records show.

Even though the case against the bank was dismissed, Hawkeye agreed to the settlement because the plaintiffs had appealed that dismissal, Mr. Levy said. With interest and attorney's fees, the original judgment has grown to about $5 million.

In addition, Mr. Levy said, the plaintiffs sought to invoke a resolution passed by Hawkeye's board in 1984, indemnifying Mr. Dunlap from losses in connection with the case. According to *The Des Moines Register*, Hawkeye's board voted on July 11 to revoke that indemnification "but to again consider such indemnification when litigation is finally concluded."

Hawkeye said the settlement will be charged against third-quarter earnings. Second-quarter earnings were $3 million. ■

FROM THE REGIONS

THE MIDWEST

Lenders Expect Farm Income to Lag, Survey Says

► Continued from Page 2

quarter. Since then, drought conditions worsened in many parts of the states in the Minneapolis district.

Stanley L. Graham, an economist at the Minneapolis Fed who wrote the report, said the bankers' outlook may be too pessimistic for several reasons:

- Farmers can sell grain stored in facilities at the higher prices brought on by the drought.
- Many farmers have crop insurance to cover losses.
- Most rural banks are in far better financial condition than in recent years. In 1987, banks in the district reported increased profits, their nonperforming loans fell, and loan-loss reserve and equity capital positions strengthened.
- Congress has provided new forms of disaster relief.

Since the survey was completed, Congress passed and President Reagan signed the Drought Assistance Act of 1988. The law, signed on Aug. 11, requires the secretary of Agriculture to guarantee operating loans to farmers and ranchers affected by the drought and to encourage commercial lenders participating in the guaranteed farm lending program to exercise forbearance before declaring such loans in default.

The disaster relief legislation comes a year after another landmark agricultural assistance law took effect. The Agricultural Credit Act of 1987, among other things, established a secondary market for farm and rural housing mortgages.

Economy Had Been on Upswing

The farm economy, after six years of a deep recession, was rebounding strongly until this summer's drought. Most experts predict that the drought, despite its severity, will temporarily delay the recovery but not end it.

According to another report, the turnaround in the farm economy and last year's legislative package begins a new era in farm lending that "could revolutionize farm lending by changing the competitive balance among new and existing farm lenders."

The report, titled "A New Era in Farm Lending: Who Will Prosper?" was done by staff members at the Kansas City Fed. The study is reported in the June 1988 *Economic Review*, a publication of the Kansas City Fed.

The report says traditional farm banks and the Farm Credit System are losing market share in farm lending. Meanwhile, larger and better-diversified banks and the Farmers Home Administration have gained share.

"Current trends suggest some winners and losers in the farm lending market of the future," the report concludes. "Large nonagricultural banks appear likely to increase their market share, while small agricultural banks lose share." ■

Lobbyists . . .

► Continued from Page 3

lon, Morgan Guaranty, NCNB, Norwest, Pittsburgh National, and Security Pacific.

Noticeably absent from the Bankers Trust coalition are Citicorp and Bank of America. Both are said to be opposed to legislation this year, in no small part because restrictions on insurance activities are included in both the House legislation and a separate bill passed by the Senate.

Thus, the nation's very largest and very smallest banks are opposed to the bill. The Independent Bankers Association of America, which represents community banks, would prefer not to have legislation this year, said lobbyist Stephen Verdier.

Driving the Bankers Trust group is a feeling that the industry is closer this year than ever before to gaining entry into investment banking. Concern is mounting that the opportunity at hand may disappear next year, when leadership on the Senate Banking Committee changes and Congress begins work on the crisis in the thrift industry.

"A very significant portion of the industry believes a bill is needed this year," said Robert Weinberger, a lobbyist for Continental Illinois National Bank and Trust Company of Chicago.

"Next year, Prox won't be around," he said, referring to retiring Senate Banking Committee Chairman William Proxmire, D-Wis., who spearheaded this year's drive for new bank powers.

Mr. Kidd and others in the group stressed that their relationship with the ABA is "not acrimonious." Still, they believe it is important to stake out a position that contrasts sharply with the ABA's. ■

New York Thrift Creates Bank for Kids, Following Example of Parent Company

By LINDA ELLIS

NEW YORK — A Long Island savings bank wants to turn small spenders into small savers.

By setting up the Bank for Kids at its Walt Whitman Mall branch in Huntington, Williamsburgh Savings Bank hopes to teach children to save money, whether it comes from paper routes or birthday bonuses. Williamsburgh, a unit of Republic New York Corp., will open the Bank for Kids on Sept. 7 — the first day of school on Long Island.

Republic New York has a similar facility for savers under the age of 18 at its New City branch in Rockland County. As in New City, youngsters at Williamsburgh's branch will be able to open an account for as little as $2.

Savings accounts will carry a 5.5% interest rate with no service charges and no minimum balance, said John Tamberlane, Williamsburgh's president.

"Our theme is to encourage and help parents teach their children how to save," said Mr. Tamberlane, who is responsible for retail operations at branch offices owned by Republic New York.

"Republic New York's mission has always been to protect depositors' assets," he said. "This especially applies to teaching children of the communities we serve that there is more to money than just spending it."

The pilot program at the New City branch has proved successful, with more than 500 accounts opened, said Mr. Tamberlane.

Each Bank for Kids customer will receive a membership card — a simulated cash machine card — and a passbook. Unlike custodial accounts, Bank for Kids' accounts give children full access to their money once parents sign release forms.

The unit is a self-contained 150-square-foot facility, complete with its own teller. Members can make deposits and withdrawals during the branch's regular hours or during special after-school hours when only youngsters are allowed in the bank.

Educational materials — including computers, interactive videocassette recorders, writing boards, and toy calculators — have been placed in the facility to help teach young depositors how banking can work for them.

New York State Bankers Plan Education Seminar

NEW YORK — A business and education seminar will be hosted by the New York State Bankers Association in Syracuse, N.Y., on Sept. 19. It will focus on the challenge of encouraging teenagers to complete high school and the difficulty of meeting the growing demand for entry-level employees at a time when the teen population is shrinking. The seminar will explore successful joint business-education ventures and student perceptions of the business world. For information call 212-949-1173. ■

Texas Thrift Trims Branches

PHOENIX — Merabank will close seven Texas branches of First Financial Savings Association, El Paso, that it purchased in June under the Southwest plan.

The closures are scheduled for Sept. 9. Merabank is a unit of Pinnacle West Capital Corp., which has assets of approximately $13.6 billion. It acquired 13 branches of the El Paso thrift and one of Brownfield Federal Savings and Loan Association, Brownfield, Tex., in the June as a result of the June transaction. ■